

The Free Market

"If you don't create a free market, a black market will emerge"



NEWSLETTER OF THE LITHUANIAN FREE MARKET INSTITUTE

2006 NO. 4 (OCTOBER – DECEMBER 2006)

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NEWS

> LFMI commemorated its 16th birthday

On November 23, 2006, the Lithuanian Free Market Institute (LFMI) held an annual event to commemorate its 16th year of pursuing its mission – promote the ideas of the free market, freedom and responsibility, and limited government. The event drew more than 80 LFMI's supporters and fellows, prominent politicians, and media and NGO representatives.

LFMI was proud to host Mr. Fritz Bolkestein, a famous European politician, the former European Internal Market Commissioner and the „Godfather” of the Service Directive, as a guest speaker of LFMI's ceremony. Mr. Bolkestein spoke on the topic “The Perils of the “Third Way”: where is the EU Going?”

In his speech, Mr. Bolkestein pointed to the French government's talks of economic patriotism and added that it was copied by Mr. Stoiber, the Bavarian Prime Minister, Mr. Viktor Orban, the Hungarian leader of the opposition, and the present government of Poland. “But make no mistake: economic patriotism is another word for protectionism. It is against European law,”- warned the EU commissioner.

In Mr. Bolkestein's belief, if ever Europe wants to meet the competition from India and China it must deal decisively with all forms of protectionism and render the

labour market more flexible as well as the markets for products and services. “If that should be called an anglosaxon economy, so be it,”- concluded LFMI's guest.

> LFMI proposes ways of spending proceeds from privatisation of the Lithuanian oil refinery

On December 19, 2006, LFMI disseminated a press release, proposing four principal ways of how to spend proceeds earned from sales of the Lithuanian Government's stake in the country's oil refinery, Mazeikiu Nafta. According to LFMI, proceeds from sales should be allocated for financing a more rapid implementation of the pension reform, for finalizing the restitution of all rubble savings until the end of 2008, for completing the process of land restitution until the end of 2008, and for trimming the budget deficit.

LFMI hopes that revenues from the Mazeikiu Nafta deal will be allocated for financing the country's long-term objectives and pending reforms. Allocations for deepening the pension reform would increase Lithuania's competitiveness and would cushion future demographic problems. In addition, LFMI argues, the largest share of income transferred to private pension funds would be invested inside Lithuania and so contribute to the country's economic and business growth.

> LFMI submits comments on a draft of national energy strategy

LFMI has been active in analyzing the energy policy for three years now. On December 15, 2006, the Institute analyzed a draft of the national energy strategy (NES) and submitted comments to the Parliamentary Committee of Economy. LFMI concluded that the goals and objectives envisaged in the NES have been basically designed to maintain the state's active involvement in the energy sector. LFMI also argues that, given the recent and popular tendency in the EU to mix foreign, national security and energy policies together, it is likely that the government's role in the energy sector may increase rather than diminish.

LFMI welcomes the government's focus on international and interstate initiatives, designed to stir up activity, that are not taking place due to political or interstate hindrances - this field, according to LFMI, fits best the government's competence in the energy sector. However, even in this area LFMI missed economic

arguments that would vindicate certain initiatives of the state.

In LFMI's opinion, the government should not attribute much attention to the ongoing processes inside the country, that is, where private initiative and private capital enjoys all preconditions to operate more efficiently, compared to the state.

LFMI concluded that the NES was at odds with the free-market principles and identified several provisions of the draft strategy that should be amended without altering their ideological paradigm and so enhance the overall document.

> LFMI analyses e- government

On December 7, 2006, LFMI held a round-table discussion to present a comprehensive study on electronic government in Lithuania. The study evaluates the accessibility, quality and prospects for the development of existing state-rendered services in electronic form. The analysis draws on the data from already conducted research and, most importantly, proposes the course of e-government development so that this development would bring tangible results for Lithuanian society. LFMI carried out the study, entitled "The Status and Prospects of E-government in Lithuania," in co-operation with VU UNESCO International Centre for Knowledge Economy and Management.

> LFMI evaluates the prospects of a new nuclear power plant and energy regulation

On December 12, 2006, LFMI staged a discussion "Prospects of Nuclear Energy in Lithuania" and presented analytical material "Prospects of Nuclear Energy in Lithuania's Liberalized Electricity Market." This work discusses the impact that the current EU's initiatives and planned policies have on the possibilities to build a new nuclear plant in Lithuania and analyses the effects of further liberalization of the electricity market on market players. It also looks into the regulatory framework that will have a weighty impact on the activities of the new power plant and provides specific conclusions and proposals.

LFMI has repeatedly voiced its position against price control in the energy sector. The Institute supports the principle of "neutrality of the source" in the energy market which means that the market and market agents adopt the most proper decisions on what energy sources and what types of resources should be used. According to LFMI, technical determinism and an overly big focus on technologies in the energy sector, rather than on the end product (e.g. warm buildings), is not expedient. It is more reasonable to take an economic approach that energy products are goods governed by universal economic laws. To put it in other words, the consumer (in most cases) is not concerned about what type of energy or technology is employed to generate electric power – consumers usually care that the price and the quality of energy would satisfy their needs.

LFMI does not hold with government support for concrete technologies either, as it distorts competition and has negative implications on the market. For this reason, LFMI neither advocates nor opposes plans to build a new

nuclear power plant in Lithuania. In the Institute's opinion, nuclear energy is viable but it is the market mechanism, not political, though best-intended, decisions that can determine most appropriately "when", "how much" and "what type" of nuclear energy will be needed.

> The welfare state under debate

On December 13, 2006, the Lithuanian Free Market Institute, in cooperation with the Democratic Policy Institute (Lithuania) and Conrad Adenauer Foundation, held a round table discussion "How Long the Welfare State will be Well?"

Socialist-minded economists consider the welfare state to be the model of central planning and redistributivist economy, destined to exist for ages. Representatives of the liberal thought claim that the welfare state is already at the brink of collapse and it is only the matter of time when this will play out. Given such different views, the discussion aimed at analyzing the roots of the welfare state, the causes of its long existence in the European countries and its implications on the countries' economies. Participants also debated Lithuania's potential economic and social life and its abilities to compete in the global market if the welfare state had been fully implemented in our country.

Papers were delivered by well-known Lithuanian economists and political scientists.

> LFMI presents an in-depth study on competition in the heating sector

In December 2006, LFMI completed a thorough study on ways how to introduce competition on the heating sector which analyses the possibilities to implement competition in the market of heating supply, identifies the advantages of different modes of heating and evaluates how economic and regulatory factors influence each type of heating. The basic recommendations provided in this study were presented at the conference organized by LFMI in June 2006.

> LFMI proposes legalizing co-payments for health care services

Pursuing activities in the area of health care policy, LFMI analysed a draft document on the procedures of payment for health care services prepared by the State Patient Fund and submitted comments to relevant institutions. This document envisages formal elimination of quotas for health care services, however, it does not determine any mechanisms of how healthcare establishments are to restrict demand.

LFMI is of the opinion that the only way to solve the problem of excessive demand for health care services is to restrict this demand as much as it is possible and to increase supply. This can be attained by creating favourable conditions for the establishment and activity of private healthcare institutions and to legalise co-payments for health care services. Legal co-payments, LFMI argues, would be a natural way of restricting demand and would be build preconditions for a more rapid development of supplementary healthcare insurance. Health care establishments of all forms of ownership must have instruments to balance the price

and quality of their services. When the price is fixed, the only potential outcome is a lower quality of services rendered.

According to LFMI, co-payments must be legalised for all types of healthcare institutions, retaining a “ceiling” on the price charged by public institutions. Co-payments should be legalised one year prior to the elimination of quotas, so that healthcare institutions had time enough to price their services responding to the behaviour of their patients and competitors. This would enable medical institutions to organise their activities, to determine their possibilities to raise physicians’ salaries and investments, to specialise and otherwise enhance the efficiency of their work.

Under such arrangement, patients would get familiar in advance what expenses will be needed in the case of different types of treatment and, after assessing their individual risk factors, would choose either supplementary healthcare insurance or saving for these purposes by themselves. Being aware of publicly announced prices, patients would be able to choose among different healthcare institutions and types of treatment and also report about cases of corruption if such occur (bribery has already become a tradition in Lithuania and so it will take time eradicate this practice after the current method of payment is replaced).

> Some EU countries are against over-time fearing competition from other member states, says LFMI

On November 16, 2006, LFMI staged a press conference to present analysis on the length of working time. It evaluates the impact that a more flexible employment regulation has on economic growth in Lithuania and unveils Lithuania’s situation in the EU and the rest of the globe in terms of employment regulation.

According to LFMI, EU’s reluctance to regulate working time more flexibly is driven on by its ideas of social welfare but rather by fears to face competition from Great Britain and the new member states pursuing more liberal economic policies. LFMI thinks that the Lithuanian Government’s prohibition for people and companies to work more flexibly undermines the roots of competitiveness and preconditions for welfare growth in the country.

A more flexible regulation of working time is the foundation for increasing and strengthening the development of competitiveness. It is an opportunity for member states to compete on the global market by offering attractive labour markets. Internationally, the EU region would acquire a competitive advantage, and nearly twice poorer new EU member states could increase their living standards, which the old Europe achieved in fifty years.

LFMI proposes that Lithuania choose a freer regulation of working time as it is a way for Lithuanian workers and companies to adjust to the challenges of the global economy. Flexible employment conditions are a serious prerequisite that high technologies and the knowledge-based economy, so desired by the Lithuanian Government, could emerge in Lithuania. The existing

regulation of working time has been accommodated to the needs of mass industry, not a knowledge-based economy. In addition, regulation of working time is essentially an inappropriate unit for measuring labour as the economy is shifting from an industrial to a knowledge-based economy.

LFMI highlights that regulation of working time in Lithuania is overly complicated. For example, the currently debated EU working time directive lays down only three principle rules to regulate the general aspects of working time. It sets the obligatory time of rest per twenty-four hours (eleven hours), the maximal length of the working week (48 hours) and uninterrupted 24-hour rest time during a seven-day working week. The Lithuanian Labour Code, meanwhile, envisages even nine cumbersome legal norms that are frequently interpreted differently by the government, employers and trade unions.

Complicated and rigid employment regulation also drags down Lithuania’s rating in the international arena and clearly points to the feeble situation in this respect. LFMI also reminds that opinion polls show that Lithuanian workers would be willing to work longer if they got properly and officially paid for over-time.

LFMI started analysing various aspects of employment regulation in 1996 and has been active in this field since then.

> LFMI analyses budget policy

In October 2006 LFMI prepared analysis “Why the 2007 year state budget must be balanced?” and presented it to the Parliament. In this material LFMI concluded that the 2007 national budget can be balanced without slashing expenditure, as compared with 2006, and that expenditure may even be increased by one billion litas (the Ministry of Finance proposed an increase in budget expenditure by 2.5 billion litas). LFMI pointed that the currently rapid economic growth and EU’s support build favourable conditions for balancing the budget. Among the core reasons why the budget must be balanced, LFMI indicated Lithuania’s state debt, the biggest among the Baltic countries, a deteriorating demographic situation and a decreasing number of workers, and the need to curb inflation (if the aim is to introduce the euro).

In the light of parliamentary debates over the 2007 budget law, LFMI formulated analytical material on problems of drawing up a national budget and their solutions and submitted it to the Parliament and the Ministry of Finance.

According to LFMI, parliamentary debates have revealed that politicians contemplate seriously only proposals to increase extra expenditures without taking any interest in the growing state debt. The Institute also highlighted that the Parliament does not seem to have a mechanism for evaluating the effectiveness of budget expenditures or a strategic planning of expenditures; debates over the expedience of state functions and other budget expenditures do not take place either.

LFMI called members of parliament for focusing on these problems and proposed the primary principles for adopting the 2007 budget law. LFMI recommended

observing the principles of transparency, expediency and effectiveness while adopting the 2007 budget law and other laws on the national budget.

However, the Parliament adopted the 2007 budget law without balancing revenues and expenditures and plans to balance it starting from 2009.

> **LFMI presents the 18th survey of the Lithuanian economy**

In a press conference, staged on October 11, 2006, LFMI presented the results of the 18th survey of the Lithuanian economy which provides forecasts for 2006 (updated) and 2007.

According to the survey of market participants conducted by LFMI in July and August 2006, the growth of Lithuania's economy will not slow down in 2006 and 2007. The study also shows that the rapid growth, long reflected in statistical indicators, have already reached the pockets of the Lithuanian people: their living conditions are noticeably increasing. Despite growing prices, rapidly increasing salaries enable people to not only satisfy their basic needs, but also to save and invest more every year. The profitability of enterprises also increases continuously, though not quite as rapidly as salaries. On a less optimistic note, there are indicators of a growing shadow economy, an unreceptive national investment climate which is not improving, a rate of emigration which does not decrease, and a vacuum of constructive policy in the government's attempts to resolve these problems – that explains more moderate expectations in some cases.

The LFMI survey was started back in 1997 and is based on the expert consensus paradigm originating from the theory of rational expectations. The survey is presented in a bilingual publication "Survey of the Lithuanian Economy 2006/2007 (1)".

A full summary of this survey is posted online: http://www.freema.org/index.php/research/the_18th_survey_of_the_lithuanian_economy_20062007_1/4062.

> **LFMI's president Remigijus Šimašius met with Prime Minister Kirkilas**

On November 20, 2006, LFMI's President Dr. Remigijus Šimašius participated in a meeting with Prime Minister of Lithuania Gediminas Kirkilas. The meeting focused on the issues of tax reform, specifically on the reduction of the personal income tax and setting a ceiling on contributions to Sodra. The leaders of both institutions also spoke about the need for, and possibilities of, overhauling the education and healthcare systems and employment regulations. Prime Minister G.Kirkilas and LFMI's President also debated the possibilities of a constructive dialog and agreed to organise such meetings regularly.

> **LFMI takes part in shaping the guidelines of higher education reform**

In the autumn of 2006, LFMI's President Dr. Remigijus Šimašius was invited to take part in a working group which was designed to formulate a conceptual framework of the reform of higher education and studies. This working group was initiated by a political party, The

Liberals Movement, and comprised politicians, academics, educators and policy analysts.

While shaping the conceptual framework, Mr. Šimašius played a key role by advocating, among group members, specific free market principles that the higher education reform must be predicated on. He highlighted the need to reform the funding system of higher studies according to competition-based principles and to finance students, rather than higher education institutions. The working group proposed that all students enrolled in higher education establishments had the right to a onetime voucher, the size of which, according to the group, could account for half of the amount currently assigned for one student from the state budget (about LTL 8000, or EUR 2318). The other half of this amount should be allocated for paying scholarships to the most talented and socially supported students and also for partial subsidizing of loans extended by private banks to cover education fees.

The conceptual framework of the reform of higher education and studies incorporated the majority of LFMI's proposals which were formulated and disseminated to the public and official institutions already back in 2003.

To present the conceptual framework, a conference was staged where Dr. Remigijus Šimašius delivered one of the key presentations on the proposals of the working group. On November 20, 2006, LFMI's President Dr. Remigijus Šimašius also took part in a meeting with President of Lithuania Valdas Adamkus, which was tailored to introduce the guidelines framed by the group. As a result of the activities of the group, Prime Minister Gediminas Kirkilas formed another working group consisting of representatives of all parties and specialists, which will prepare a government-level strategy for reforming the higher education system in Lithuania. It is planned that proposals, recently put forth by various working groups and parties, will be taken into account while shaping the strategy.

COMMENTARY

The author of this commentary takes a look at the energy strategy of the European Union and discusses the prospects of, and the need for, cutting the energy use in the EU. It was posted on the internet portal, Delfi.lt, November 7, 2006.

The Great Plan for Energy Saving

By Žilvinas Šilėnas, Policy Analyst, LFMI

Concerned with dependence on imported energy, the remaining global reserves of fossil fuels and climate change, the European Commission has recently put forth a new plan for energy saving. Basically, this plan is not new – it only reflects the provisions laid down in the

energy strategy of the EU. The essence of this plan is to cut 20 percent of the energy use in the EU, by 2020.

Energy dependence, climate change and shrinking oil reserves

Forecasts that global reserves of fossil fuels are running out have proved false several times already. The fact is that cost-effective oil reserves have, so far, been increasing as a result of innovation and the fact that, as oil prices go up, exploitation of formerly unprofitable resources become profitable (for instance, Alberta's oil-rich sands in Canada). This means that hydrocarbon resources will definitely last for long thanks to price mechanism and technological progress.

The Kyoto protocol and the reduction of carbon dioxide emissions, the way it's done at the moment, is a futile attempt to solve the global problem of man-evoked climate change by local measures (although it should be admitted that scientists, indeed, cannot reach a consensus on the existence of this effect and the scope of its implications). The thing is that neither the US nor other countries, soon to be emitting the largest amounts of carbon dioxide, such as China, have joined the Kyoto protocol.

The EU has relatively few energy sources in its own territory, therefore it will never be independent from energy suppliers. It will depend on energy suppliers in exactly the same way the energy suppliers will rely on the EU market for revenues. Of course, as consumption in Asia is rising, Russia may try to diversify its export markets for energy resources in the long run and to decrease its dependence on the European export market. But Russia is not the only country rich in energy resources.

With the development of liquefied natural gas (LNG) technology, it is likely that one day the market for natural gas will start to appear similar to the oil market, and the EU will be able to import gas from an increasing number of countries. New projects, such as Nabucco, are aimed in this direction. Besides, conserving energy and reducing the dependence on foreign energy suppliers can be put together only if the improved efficiency of energy use enables EU to rely increasingly on its indigenous energy resources. However, as a result of price changes, imports of certain energy resources will be yet cheaper than their extraction within the EU, so imports of energy resources are not likely to change significantly.

Irrational and irresponsible

The European Commission's position stating that people act irrationally and irresponsibly by not conserving the amount of energy recommended by the Commission is not surprising. Such assumption vindicating state intervention into economic activity is widespread, and in light of expensive energy resources seems justified and even welcome at first glance. But, in fact, people always act rationally - they always take into account price signals and their preferences when they make choices.

It would be really strange to think that a grown-up person does not understand that a lit bulb or an electric device in a stand-by mode consumes energy. The point is that for

the majority of consumers the energy prices are (still) not that high as to make them worry about every inefficient light bulb in their household. For this reason, the first step towards energy saving should be to build preconditions to pay the genuine price for energy, i.e. to do away with cross-subsidies that allow certain groups of consumers to pay less than the true price. The system of privileges and compensations that ties the size of compensation to the amount of energy consumed does not encourage energy saving either.

In addition, it must be admitted that technological progress which increases the efficiency of the energy use, may increase rather than decrease energy consumption as consumers, due to relatively cheaper energy, may tend to choose comfort and convenience, not energy saving. For example, the famous Ford T from the dawn of the 20th century has a similar gas mileage as contemporary cars. It is convenience that motivates José Manuel Barroso to drive a large SUV instead of a Smart or a bicycle. And Al Gore, while campaigning for his pro-environment movie 'Inconvenient Truth', travels by plane (although, according him, air transport emits considerable amounts of greenhouse gas).

The Commission's plan envisages an information campaign about energy saving which, although of narrow effect, is a positive step as it will enlarge the amount of information and will enable individuals to adopt more appropriate (i.e. more informed) decisions. But a discussion nevertheless should be held on how much money, which otherwise might be directed to other areas, can be spent on this campaign.

However, the so-called "hard" measures, that punish certain groups of consumers and encourage others, differ from the above mentioned ones fundamentally. In this field, the idea is to stimulate the production and use of energy-conserving products and to forbid (or restrict) the use of less efficient ones. This will exert influence on both - producers and consumers.

First, based on these new standards of minimal efficiency, certain groups of goods will not be allowed to enter the EU market. Bearing in mind where the bulk of cheap, less efficient devices are produced, it is very likely that European producers will put strong pressure on the European Commission to set an extremely high minimal level of efficiency which will include the majority of EU producers but will oust the ones from other countries. This will definitely translate into higher prices for consumers: we may be forced to buy, for instance, very efficient but expensive refrigerators because cheaper alternatives may be simply unavailable as a result of EU's closed market or additional taxes, which will push prices upwards.

Measures aimed at stimulating acquisition of energy-efficient products, such as tax-deductions or VAT exemptions, are not faultless either. First and foremost, they require financial resources that instead could be directed to other needs. Second, new (more expensive) products are frequently more efficient than their old (cheaper) counterparts anyway. No secret, new and more expensive goods can be afforded by wealthier people. For this reason, it's quite probable that someone will

enjoy a VAT exemption for purchasing, let's say, a plasma TV set or a hybrid SUV, especially as similar cases have already been reported to have occurred in the US.

Minimal energy-efficiency requirements for buildings also pose a dual impact. On the one hand, they may encourage people to conserve energy, but, on the other, they may drive up the prices of housing, which may dwarf incentives to acquire newly-built, energy-efficient real estate.

To save or to play-act?

To economize the use of energy resources is a positive initiative; however, economizing must be prudent. The EU does not need to squander resources to increase the already quite economical energy consumption just to become a world leader in energy efficiency. It is simply ineffective to go on cutting the carbon dioxide emissions for environmental purposes when neither the US nor China, (which builds a new coal-fired electric plant every week), act similarly.

A big number of initiatives designed for energy saving that were recently proposed by the Commission are predominantly positive; their impact will depend on what means will be selected for their implementation.

Disseminating information about the ways of energy saving and creating conditions for the implementation of these ways (for instance, a reduction of a number of bureaucratic barriers in choosing the type of heating for one's house or flat) is effective, useful and may bring specific positive results. However, when authorities restrict the individual's right to choose and force expensive super-efficient light bulbs onto consumers, they frequently forget that then some consumers will only be able to afford candles for illumination.

OPINION

The following article appeared on November 3, 2006 in a monthly column of the Lithuanian Free Market Institute entitled "What Would F. Bastiat Say?" in the leading Lithuanian weekly 'Veidas.' It discusses the economic aspects of democracy and monarchy, comparing which of the systems is a better place to live for ordinary citizens.

Economics of Monarchy and Democracy

By Remigijus Šimašius, President, LFMI

The visit of Queen Elizabeth II to Lithuania revealed once again that monarchs are lovely people. Unlike most politicians, they are not cynical or arrogant, they are composed and exceptionally discrete and they also know how to demonstrate their cordiality. These personal traits, that can be discerned with the naked eye, allow us exploring cultural, historic and emotional aspects of monarchy. However, the economic aspect remains

unstudied for a simple fact alone - we all know well that today's European monarchs, except perhaps the Duke of Lichtenstein, are merely cute symbols rather than genuine heads of state. The United Kingdom, Denmark, Sweden, the Netherlands and other kingdoms are the same democratic systems as Lithuania. This means that the power rests within the political class, bureaucrats and masses that elect them, not monarchs. But let's be politically incorrect and raise a question: what, in economic terms, is better – democracy, i.e. the rule of the majority, or a genuine monarchy, i.e. the rule of one.

Governing the state is a function, performed both in a democratic system and in an absolute monarchy. Yet, democracy and an absolute monarchy create different motivation for their governors. The state is monarchs' property. They administer it until they die; they can sell it, give it as a present, dismember it or bestow it as an inheritance to their heirs. So it's natural that the monarch's prime concern is not to appear spectacularly before elections but to increase the value of his property - the state - and to bequeath it to heirs as prosperous as possible.

Democratically elected rulers, on the contrary, are only temporary administrators elected to serve for four or five years. Elections always come in a short while, and such rulers invariably aspire to be re-elected again. No wonder, the solution of pressing problems is drowned by pleasing day-to-day interests and by making preparations for the upcoming election show. The practical consequences for citizens can be elucidated if you compare how people treat their own property and how they deal with a temporarily entrusted property – take, for example, privately owned houses and typical hostiles or municipal housing...

Another comparison of an absolute monarchy and democracy is related with the circumstances under which kings and politicians emerge. Kings, as we know, are born to be rulers. This is basically an entire coincidence as any one might have been born to be an heir to the throne. This element of coincidence is usually supplemented by consistent nurturing of the child in order to prepare him/her in advance for responsible governing of the country. Consequently, monarchies have fortuitous but exclusively educated representatives of the elite. Politicians, contrary to monarchs, become rulers. The process of becoming a politician is to take part in the race of promise giving and exhibitionism, called elections. Think, what features an individual needs to possess in order to win this race? It is no secret that manipulation, intrigues, and ability to lie and make promises without event intending to fulfil them don't come at the tail end...

The third and, most probably, the key aspect in contrasting monarchy and democracy is the relation between members of society and rulers. In monarchies this relation is clear-cut – there is a monarch on the one side and "me" and my community on the other. The monarch is impelled to be nice and useful; otherwise no ties will stop those ruled from revolt. In other words, people respect monarchs because they fulfil a certain function, as long as the cost of this function does not burden ordinary people too heavily. In the case of democracy, we harbour an illusion that we all participate

in running the country. It is a paradox but, in the final analysis, no one is a decision maker and no one is responsible for these decisions. But the illusion of being involved allows us to self-identify with the authorities and to hope to elect better rulers in the next election. All this forces us into an artificial trust in authorities (if I elect the government, it must serve me) and, eventually, into inevitable and undue disappointment with them. Monarchies manage to sidestep such false expectations, self-identification and a swing of the political pendulum. Moreover, democratic systems lead to totalitarianism even more often than monarchies do, and the case of Russia and Germany are more than illustrative in this respect.

I do not propose Lithuania to import a king and pretend that we have coped with all problems. However, I suggest seeing that democracy is not a panacea that will salvage us and the entire world. Democracy is not a warranty of freedom and welfare either. To understand this is especially important today when even wars break out for the good of democracy, while promotion of democracy has already become a factual crusade. It is very probable that democracy doesn't deserve that. The title of the book by philosopher and economist H.H. Hoppe is very eloquent and felicitous – 'Democracy: The God that Failed.'

COMMENTARY

LFMI continues the debate on the length of working time in Europe and explains why inflexible regulation of working time is not fit for a knowledge-based economy. The following article was printed in a political weekly, Atgimimas, on November 10, 2006.

When to Work is the Business of an Individual **On Regulating Working Time**

By Giedrius Kadziauskas, Senior Policy Analyst, LFMI

Some European Union countries maintain that the right to work longer than the 48-hour limit is an exception that must come to an end. The Lithuanian Government also upholds this position, thus joining the ranks of EU member states that aim at restricting the opportunity to easily exercise this exception and allow their populations to work longer than 48 hours per week. Italy, France and Spain, opposing a more flexible regulation, claim that keeping the current regulation in place "runs counter to the spirit of the EU."

If the EU spirit is such indeed, we'd better think twice, if this is the road we are willing to hit as one company.

Enmeshed in halfway proposals, EU countries are planning to make a step backwards and to tighten the

working time regulation, i.e. to send it back to the times of mass production. The reality is that the iron-bound eight-hour working time regulation is no longer suitable for the needs of the current economy. The services sector, which primarily needs flexible working hours, employs more than 66 percent of European workers and is constantly rising, while the number of those occupied in the production and agricultural sectors is diminishing.

It is true, though, that horns are quite possibly being locked over ideas that won't matter in the future - perhaps even in the very near future. Working hours is indeed a very convenient unit for measuring conveyor-type labour. But do you know at least one business that trades in hours that someone spent while working? It is usually presumed that if you worked, you have created a product or a service that has been purchased on the market. Evidently, measuring labour by hours is imperfect: some work more productively than others or simply spend less time on searching the Internet, and consequently remuneration for work differs. However, the state measures the number of hours permitted to work by more or less the same last for all employees.

In pre-industrial societies working time was limited by morning cocks, the sun and the reserves of candles. The results of labour used to be measured not by the amount of time consumed, but rather by concrete units produced and services rendered – grain, vegetables, clothing tailored, and household utensils or farm implements made.

Until the technological revolution in the 19th century, people were predominantly employed at home or in the farms. Calculation of working hours, labour for a fixed monthly or hourly wage and separate buildings for joint work have been the result of only recent history. The shift from household production to manufactories has changed peoples' daily life: immovable and fixed working hours emerged and the opportunity to slightly increase or reduce the workload according to workers' needs vanished, whereas when working at home people could make five instead of three pairs of shoes per week and spend more time taking care of their houses, children and grandparents. The technology of labour in a manufactory demands permanent, planned and defined presence in a working place.

The industrial revolution has concentrated jobs in common buildings in manufactories and in offices servicing them. The ongoing technological revolution may produce a respectively strong but contrary effect. The nature of labour is changing; it becomes less depended on a concrete place and physical instruments: when a worker leaves his place of work, it does not necessarily mean that he has stopped working. Technologies enable us not just to provide services at a distance but also to provide them being at home, and, vice versa, to do household tasks from our places of work. This opens up opportunities for employees to better dovetail the obligations of work and rest, family needs and leisure. Such technological progress allows us to revert to a more reliable unit of measurement of labour – the results of labour. When working flexibly, an employee may choose how and where to work – the employer's major focus is on the results.

Labour in the production sector is changing its face. It is starting to resemble creative work due to technological progress, which enables doing away with manual work, and transferring of heavy, labour-consuming production to countries with cheap labour force – the key tasks in the production are to devise what and how to produce and organise the entire process. Well, if not today, so tomorrow more people will be involved in this activity than work at machine-tools.

Changes in the living surrounding also have an effect on working time: traffic jams in the cities impel people to make not only such simple steps as altering the time of work for state or private institutions, but also, in certain cases, to forgo travelling to work at all. Traffic jams, high-speed Internet and a fantastic plan – four days in the city and three days in the countryside – will gradually become a reality.

If not government-erected regulation, working time would be entirely ignored in many types of activity. Distinction between work and non-work time has been invariably complicated for creative workers. In reality, the time of work is not being differentiated by those who, not being in the place of work, are involved in tackling work-related problems by telephone, writing or simply thinking.

A survey of working time conducted in New Zealand showed that in 1986 low-skilled workers spent the most time working, while in 2001 the longest hours spent on work were among educated people.

Governments not always hear requests to adopt flexible measurement of working time, notwithstanding that various studies trumpet about the opportunities and advantages of flexible work-time schedules. Business consulting company Deloitte reported that in the year 2003, when they created an opportunity for their workers to choose flexible work-time schedules, the US bureau alone saved 40 million dollars – they simply didn't need to pay layoff compensations for those employees who would have not agreed upon strict working hours.

Technological changes and adjustable work schedules build an opportunity for people willing to spend more time with their families to do so. Discussions often revolve around what damage long working hours have on families when an individual is sidetracked from family affairs. However, a currently politically popular movement for women's inclusion in the labour market - in order to achieve the Lisbon goals and improve the figures for women employment at any cost - exerts similar or even more deleterious results on family life.

The European regulation of working time faces the past. Eight, forty or sixty hours of work is no longer an object for debate if we look at a slightly longer span of time, given the ongoing striking remodelling of ways in which people create goods and services needed by others. European governments don't even think of embracing these changes – but where do they get this itch to truss others' hands and forbid them to toil more freely?

The Free Market is a quarterly newsletter of the Lithuanian Free Market Institute, disseminated in electronic form for free.

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The Free Market is published by the Lithuanian Free Market Institute – an independent non-profit organisation established in 1990 to advance the ideas of individual freedom and responsibility, free market and limited government. Our motto is

If you don't create a free market, a black market will emerge

The founders of LFMI are – Prof. Kęstutis Glaveckas, Nijolė Žambaitė, Dainius Pupkevičius, Petras Auštrevičius, Elena Leontjeva and Darius Mockus.

LFMI pursues its mission by conducting research on key economic policy issues, developing conceptual reform packages, submitting policy recommendations at the legislative and executive levels, drafting and evaluating legislation, and launching public campaigns. LFMI's activities also include sociological surveys, publications, conferences, workshops, and lectures.

LFMI receives financial support from individuals, corporations and foundations. Devoted to the principles of private ownership, LFMI accepts no funds from the Lithuanian government.

Lithuanian Free Market Institute
16A J.Jasinskio Str.
LT-01112 Vilnius, Lithuania
Tel. (370-5) 252 6255, (370-5) 252 6263
Fax (370-5) 252 6258
www.freema.org (English)
www.lrinka.lt (Lithuanian)